

NCUA News

FCUs Pay 22.7 Percent Less In Operating Fees

NCUA belt tightening and frugal operations allowed the agency's Board to lower what federal credit unions will pay this year to support NCUA operations by 2.9 percent. This marks the fourth consecutive reduction and the sixth year without an increase in the operating fee. After four years of reductions, federal credit unions will actually pay 22.7 percent less in operating fees than in 1993.

Considering it arrives on the heels of a second consecutive dividend payout over \$100 million from the National Credit Union Share Insurance Fund, Chairman Norman E. D'Amours said, "I couldn't be happier. Federal credit unions are enjoying an unprecedented bargain in services and insured safety from NCUA. My fellow Board members and I are proud of NCUA's efforts and the tireless work credit unions do to keep costs low, which enables us to reduce costs."

The National Credit Union Share Insurance Fund will fund half of the

agency's 1997 budget of \$99.86 million. Operating fee assessments from natural person federal credit unions will contribute \$44.42 million. Contributing most of the difference is \$3.4 million from the Operating Fund balance, \$1.3 million in interest and miscellaneous income, and nearly a million dollars from corporate credit union operating fees. This year's 2.9 percent fee reduction will save federal credit unions \$1.33 million.

The operating fee scale is adjusted annually to reflect asset growth during the previous year. During 1996, assets were projected to have grown an estimated 7 percent and the fee scale was adjusted accordingly.

FCU Fee Scale

Based on asset size, the 1997 operating fee scale for federal credit unions follows:

- \$0 to \$500,000 pay no assessment
- \$500,000 to \$750,000 pay \$100

February 1997, Number 2

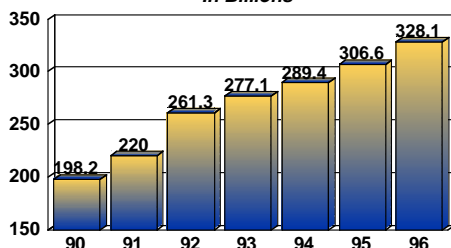
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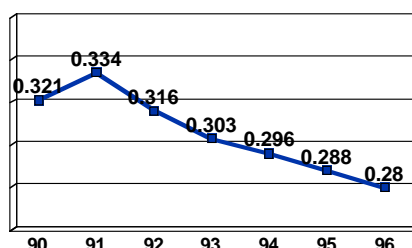
- \$750,000 to \$435,347,925 pay $0.0002439 \times \text{total assets}$
- \$435,347,925 to \$1,317,356,287 pay $\$106,181.36 + 0.0000711 \times \text{total assets over } \$435,347,925$
- \$1,317,356,287 and over pay $\$168,892.15 + 0.00002373 \times \text{total assets over } \$1,317,356,287$

Corporate federal credit union assessments are unchanged. State-ments with operating fee assessments and share insurance fund adjustments will be mailed in early March. The operating fee and Insurance Fund adjustments are due by April 15, 1997.

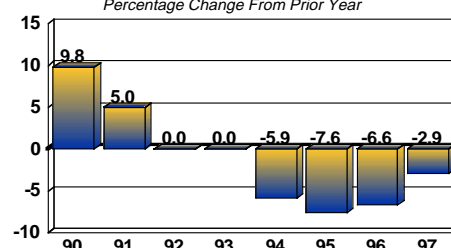
Federally Insured CU Assets
In Billions



NCUA Operating Expense To CU Assets
In Cents



NCUA Operating Fee
Annual Rate Adjustments
Percentage Change From Prior Year



News Briefs

- **Rule Changes Released** — Change 2 to the *Rules and Regulations* was distributed in December and Change 3 was distributed in the last few weeks. If your copy hasn't arrived, please contact the Publications Office at NCUA by mail or telephone at 703-518-6340.
- **Supervisory Guide Nears Completion** — The *Supervisory Committee Guide* is in final stages of completion. NCUA expects to distribute the guide in the first quarter of 1997.
- **Part 703 of the Rules and Regulations** — Nearly 600 comments were received pertaining to the proposed investment rule change. Staff is considering the recommendations and holding meetings with credit union executives and trade associations as a final rule is prepared to present to the NCUA Board. More meetings are scheduled in February and a final rule, issued in Q&A format, is expected by Spring.

- **Letter to Credit Unions** — NCUA will soon issue a *Letter to Credit Unions* concerning internal control weakness in automated response systems.
- **Conversion Applications Increase** — Many credit unions are not waiting for a legal or legislative remedy in the face of a challenge to their field of membership policy. In four months, NCUA has had 65 applications to convert from federal to state charter and 175 federal credit unions have applied or indicated their desire to convert to a community charter.

Board Schedule

The February 26 open Board meeting is rescheduled to March 6 at 10 a.m. because Chairman D'Amours will testify February 26 before the House Banking Financial Institutions Subcommittee about NCUA's field of membership policy. The Board meeting scheduled for March 12 is canceled. The agenda items expected to be considered in March are —

- Final rule change to Part 704, Corporate Federal Credit Unions;
- Proposed rule change to Section 701.26 and 701.27, Credit Union Service Contracts; Revised Special Assistance Policy Statement; and
- Request for Comments on Regulatory Review.

Former Regional Director Passes Away

Former Region V Director Buford Langford died Monday, Jan. 20, 1997, in Austin, Texas, at the age of 81. His NCUA career spanned four decades, beginning with the agency's predecessor, the Bureau of Federal Credit Unions. Langford retired as the Region V director in 1972.

Use Credit Cards for Publications and FOIA Requests

NCUA publications and Freedom of Information Act (FOIA) requests can now be purchased by credit card. Using a VISA or Master Card, you can obtain a copy of any publication NCUA has for sale by sending a message to oamail@ncua.gov on the Internet, faxing a request to 703-518-6433, or by calling NCUA Publications at 703-518-6340.

Make FOIA requests by credit card using ogcmail@ncua.gov on the Internet, faxing requests to 703-518-6569, or by calling the FOIA office in General Counsel at 703-518-6540. Of course, many publications are available on NCUA's Web site at www.ncua.gov.

Publications are also available by submitting a request with a share draft, check or money order to NCUA, Publications, 1775 Duke Street, Alexandria, VA 22314-3428.

Bringing CUs Into Low-Income Neighborhoods

NCUA's Office of Community Development Credit Unions is conducting a session February 19, 1997, on how to bring credit unions into low-income neighborhoods at the Neighborhood Reinvestment Corporation Training Institute in Atlanta, GA. As part of the class, attendees will tour Atlanta's low-income designated B.O.N.D. FCU. For more information, call the Training Institute at 202-376-2642.

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Shirlee P. Bowné, Vice Chairman
Yolanda T. Wheat, Board Member

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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WHAT HAPPENED AND WHEN

FOM Lawsuit Chronology Continues

After issuing policy changes allowing federal credit unions to make charter adjustments and filing a petition for Certiorari with the Supreme Court in November, December and January yielded lows and highs as legal maneuvering continued.

December 4 — The District Court invalidated NCUA's new Interpretative Ruling and Policy Statement IRPS 96-2, preventing credit union conversion under the rule and rescinding those which had occurred since the adoption of the policy on November 14, 1996.

December 11 — NCUA filed a motion asking the U.S. Circuit Court of Appeals for the D.C. Circuit to stay the injunction imposed by the District Court preventing the addition of select employee groups and new members to existing select employee groups until the Supreme Court decides whether to hear the case.

December 24 — The Court of Appeals grants NCUA's Motion and issues a partial stay of the nationwide injunction pending a decision by the Supreme Court regarding whether to hear the case. The stay permits federal credit unions to once again add new members to select employee groups already within their fields of membership. The injunction continues to prevent the addition of new select employee groups that do not share a common bond with the credit union's core group.

January 17 — The AT&T case was not among the cases the Supreme Court

either denied or agreed to hear during this term. February 14 is the next date the Supreme Court is scheduled to choose cases to be heard and NCUA remains hopeful that the AT&T case will be among those chosen.

January 29 — The District Court Judge held a status conference with attorneys for all parties in the AT&T case. He consolidated the Texas Bankers case which involves the same issue and stayed further proceedings pending a decision from the Supreme Court. NCUA attorneys notified the Court that the NCUA Board withdrew IRPS 96-2.

February 26 — Chairman Norman E. D'Amours will testify before the House Banking Financial Institutions Subcommittee about NCUA's field of membership policy on February 26. This is the first Congressional hearing on possible legislation to ensure that eligible American workers and people of limited means can join a credit union if they wish, a choice banks want to severely restrict. NAFCU, NASCUS, the Office of Management and Budget, the American Bankers Association, and the Independent Bankers Association will also testify.

March 11 — Another status conference is scheduled in the District Court.

If the Supreme Court denies Certiorari, NCUA is prepared to pursue various regulatory, legislative, and legal options in order to preserve the safety and soundness of the nation's federal credit unions.

NCUA's Web Site Wins Accolades



NCUA's Web Site
<http://www.ncua.gov>

NCUA's WWW site was awarded "The Editor's Choice Award" by LookSmart International, a subsidiary of *The Reader's Digest* that reviews web sites and lists only those with high editorial standards on its web directory.

In January, FFIEC Training Instructor James Shannon noted that NCUA's web site is on the cutting edge in his "Capital Markets and Internet" class.

Also, a Bankers Trust employee sent this strong endorsement to our Webmaster January 31. "This is an excellent site: there's board minutes, on-line newsletter, current information, rules and regulations. Very well done."

New on the Web -- Monthly Activity Report and Accounting Manual

The *Regional Directors' Delegation of Authority Report*, summarizing each month's activity — new charters, charter expansions, charter conversions, mergers, and insurance applications — is being placed in the Reference Section of NCUA's Web site beginning this month.

A new NCUA *Accounting Manual* will be available this Spring on our Web site. The manual is the same reference tool our examiners use when they conduct credit union examinations. It is an important guide that credit unions should use to maintain their books and records. Placing it on the Web will allow for including the manuals numerous illustrations, charts, and sample forms.

BOARD ACTIONS

Community Development FCU Chartered

The NCUA Board approved the charter for North Dade Community Development Federal Credit Union, a low-income credit union organized in Miami, Florida. It will serve the 145,000 people who live, work, and worship in, or businesses and organizations located in five communities within Northwest Dade County.

Sponsored by the Metro Miami Action Plan, supported by local churches, and organized by the Congress of Religious Credit Unions, the new credit union will serve communities where the majority of residents live below the national median income level.

North Dade received 43 letters of support from civic and community leaders. Two surveys of over 2,600 residents indicate the communities' overwhelming support. The single existing credit union in the area does not object to a membership overlap and four of the many surrounding credit unions volunteered to act as "big brothers" to assist the new institution.

Charter Conversions

Countywide FCU and Point Mugu FCU Convert to Community Charter

The NCUA Board approved the following two federal credit union charter conversions —

Countywide Federal Credit Union, Beavercreek, Ohio, converted from an occupational to a community-based field of membership to serve the people who live, work, worship, or attend school in Montgomery and Greene Counties, Ohio. This conversion permits the credit union to expand its field of membership to serve residents in the two counties where the credit union

currently operates. The central location of its main office and branches will provide the residents in both counties with convenient access to member services.

Point Mugu FCU, Oxnard, CA, converted from a multi-group to a community charter to serve the people who live, worship, or work in, and businesses and other legal entities located in Ventura County, California.

Point Mugu FCU's field of membership had been primarily tied to the Naval Air Warfare Center and its affiliated occupational groups. Credit union officials have been considering this charter conversion for some time because the base operates under the threat of eventual closure and additional reductions in force in the interim.

Corporate FOM Amendments Considered

The NCUA Board voted on five corporate credit union field of membership (FOM) expansions.

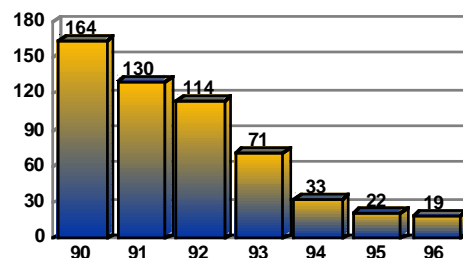
The Board —

- Denied New York Empire Corporate FCU's request for a national FOM.
- Approved Virginia League Corporate FCU's FOM expansion into Maryland, South Carolina, North Carolina, the District of Columbia, and West Virginia.
- Approved a Mid-Atlantic Corporate FCU, Harrisburg, PA, expansion adding New Jersey.
- Approved a Mid-States Corporate, Naperville, IL, expansion to serve Indiana, Iowa, Kentucky, Michigan, Minnesota, and Missouri.
- Approved a Southwest Corporate, Dallas, TX, expansion to serve Alabama, Arizona, Colorado, Florida, Georgia, Iowa, Kansas, Kentucky, Minnesota, Mississippi, Nebraska, New Mexico, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Utah, and Wyoming.

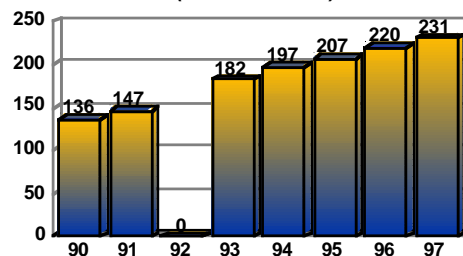
NCUSIF Ends 1996 With 1.3 Percent Equity Ratio

The National Credit Union Share Insurance Fund closed 1996 with an equity to insured shares ratio of 1.30 percent, even after paying a dividend of over \$102 million to federally insured credit unions this past October. The equity ratio will adjust to 1.28 percent early in 1997, reflecting last year's estimated 7 percent share growth. However, the Fund is expected to reach a 1.32 to 1.33 percent equity ratio by yearend 1997, which would require another dividend payout.

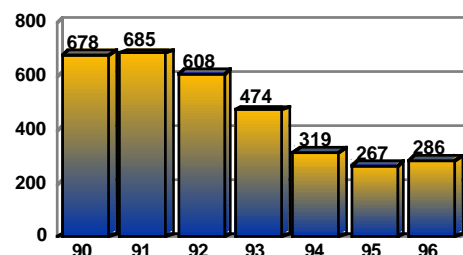
Credit Union Failures
FY 1990 - FY 1996



Insurance Premiums Waived
(Insurance Year)



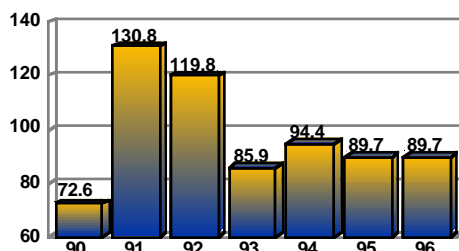
CAMEL Code 4 & 5 Credit Unions



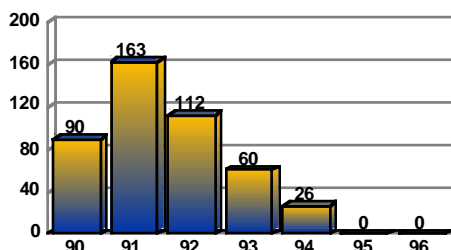
BOARD ACTIONS

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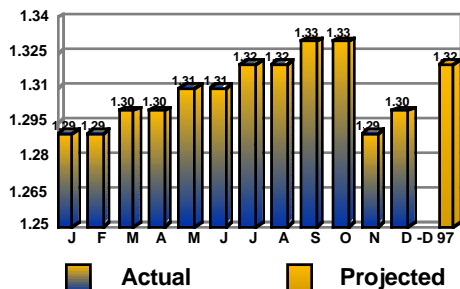
NCUSIF Reserves
(In Million \$)



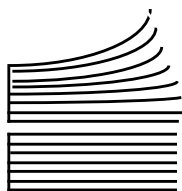
NCUSIF Insurance Losses



NCUSIF Equity Ratio
1996 Monthly and Dec. 1997



GC Opinion Letters



The NCUA Office of General Counsel responds to written requests for legal interpretations of the

Federal Credit Union Act and NCUA Rules and Regulations. All General Counsel opinion letters are available on the NCUA Web Site at www.ncua.gov.

The following legal opinions may be secured by writing to the Office of Public and Congressional Affairs. Please provide the identifying number and title when making a request.

No. 96-1010 Attorney Fees — An FCU that hires an attorney to defend it in a lawsuit must pay the attorney for services rendered, even if the attorney is a member of the credit union's board of directors, and paying for the service would violate a conflict-of-interest regulation. When a credit union enters into an agreement to pay an individual to perform certain services, the credit union is obligated to render payment when the service is performed. Dec. 2, 1996

No. 96-1016 Varying Interest Rates — An FCU with a legally supportable business reason that advocates a rational basis for deviation can price interest rates differently for a specific geographical class of members. The opinion letter stresses that the "effects test" must always be considered before implementing a variable rate program to ensure the program does not have a discriminatory effect on a protected class of individuals. Dec. 2, 1996

No. 96-1118 Risk Assets — Federal Home Loan Bank stock is classified as a risk asset. Also, an entire

commercial loan is classified as a risk asset even when it is 90 percent guaranteed by a federal or state government. Dec. 4, 1996

No. 96-1136 Supervisory Committee Members — Supervisory committee members should not serve simultaneously as loan officers. While not a violation of the FCU Act, the practice does violate sound internal controls. Dec. 4, 1996

No. 96-0923 Credit Union Service Organizations — A CUSO leasing space to a credit union can lease excess space to non-credit union users. If leasing property is a CUSO's only activity, the CUSO must primarily lease property to credit unions and members of affiliated credit unions. Dec. 6, 1996

No. 96-1217 Reimbursing CUSO Travel — A CUSO is prohibited from reimbursing CUSO conference expenses for a board member who is also an official or senior management employee of an affiliated credit union. However, an FCU may cover the expenses of officials and senior management and an immediate family member who attends a CUSO-related conference. The CUSO may reimburse the FCU for conference travel costs. Jan. 22, 1997

No. 96-1117 League FCU Membership — A league organization is ineligible for membership in its affiliated federal credit unions. State leagues, although composed of credit unions, are not within the field of membership of all member credit unions. February 4, 1997

Examination Program Scores High

NCUA's examination program scored high marks from credit unions in the final quarter of 1996. Areas earning 4.5 or above from a possible 5 relate to pertinent questions about effective communications with credit union management, examiners being adequately trained and informed, and providing examination reports in a timely manner.

Overall, credit unions scored every question about the examination process above 3.5. The only area that didn't receive 4s was AIRES, which earned an average 3.7 approval rating based on a question about the usefulness of AIRES download to the exam. While AIRES was used in over 50 percent of examinations in the second half of last year, in

many smaller credit unions a download wasn't feasible, which lowered the results. As examiners use and gain more confidence with AIRES, easier, faster, and smoother downloads should result.

NCUA appreciates the 60 percent of 4,336 credit unions examined between June and December 1996 that returned the 1-page, 10-question examination survey. Be assured that the time you spent completing the survey will be repaid with improvements based on your input. NCUA began distributing survey questionnaires following examinations last June and plans to continue using the survey through 1997. This will afford all credit unions an opportunity to comment on the examination process.

CUs Avoid Damage

In the second week of January, NCUA Examiner Gretchen Miller contacted credit unions along the flooded Truckee River and downstream flowing east to west and north to south.

"All the credit unions in northern Nevada are unscathed," she reported. "I contacted a lot of the northern Nevada credit unions that I thought could be flooded; Reno City Employees had no flooding, neither did Great Basin or Sierra

Schools nor any of their branch offices. Nevada Community in Carson City and Churchill County in Fallon also reported no damage to their branches."

In Oregon, Supervisory Examiner John Preston checked for flood damage as well. Although league contacts and credit unions reported no damage, some, including Rouge in Medford, had to use bottled water because water and sewer services were out of commission.

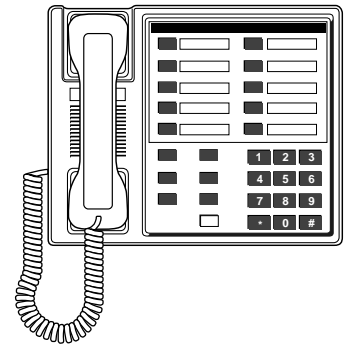
NEWSLINE

Hear the latest news about NCUA, the legal cases, and the credit union movement every day by calling NCUA's Newsline.

The toll-free number is
1-800-755-1030

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703-518-6339
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NCUA News

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